

## Message Text

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FM AMEMBASSY NEW DELHI

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C O N F I D E N T I A L NEW DELHI 5331

EO 11652: GDS

TAGS: ETRD, IN, UR

SUBJ: NEGOTIATION OF INDO-SOVIET FIVE-YEAR TRADE

AGREEMENT DRAWS TO A CONCLUSION

REF: MOSCOW 5169

1. SUMMARY: THE LONGTERM TRADE AND PAYMENTS AGREEMENT FOR 1976-1980 BETWEEN INDIA AND THE SOVIET UNION IS EXPECTED TO BE SIGNED THIS WEEK. IN ADDITION TO DEALING WITH REPAYMENT OF THE 1973 WHEAT LOAN, THE NEW AGREEMENT WILL BE CALLED UPON TO GIVE SUBSTANCE TO THE COMMITMENT ANNOUNCED DURING BREZHNEV'S 1973 VISIT TO INCREASE THE LEVEL OF TRADE BY 50 TO 100 PERCENT BEFORE THE END OF THE DECADE. THERE IS A GROWING FEELING IN INDIA THAT THE POTENTIAL FOR EXPANSION IN TRADE WITH THE SOVIET UNION IS LIMITED BY THE USSR'S INABILITY TO ADJUST TO INDIA'S CHANGING NEEDS. END SUMMARY.

2. AN AURA OF SUSPENSE HAS HUNG OVER INDO-SOVIET ECONOMIC RELATIONS SINCE LAST DECEMBER AS THE DATE FOR THE SIGNATURE OF THE NEW FIVE-YEAR TRADE AND PAYMETS AGREEMENT (COUPLED WITH THE ANNUAL TRADE

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PLAN FOR 1976) HAS REPEATEDLY BEEN POSTPONED SINE DIE.

GOI OFFICIALS HAVE ASSURED US THAT THE DELAY WAS NOT CAUSED BY SUBSTANTIVE DIFFICULTIES, AND THAT THE CEREMONY DEPENDED ONLY ON FINDING A MUTUALLY CONVENIENT TIME FOR THE VISIT OF SOVIET FOREIGN TRADE MINISTER PATOLICHEV. IN FEBRUARY A SOVIET DELEGATION CAME QUIETLY TO DELHI FOR THE "FINAL" NEGOTIATIONS. WE WERE TOLD IN EARLY MARCH THE AGREEMENT WAS READY FOR SIGNING.

3. SOVIET DEPUTY FOREIGN TRADE MINISTER GRISHIN ARRIVED IN NEW DELHI APRIL 7 FOR STILL FURTHER "FINAL TALKS" ON THE LONGTERM AGREEMENT. ACCORDING TO PRESS REPORTS (CLEARLY RELYING ON OFFICIAL SOURCES), THE DISCUSSIONS WILL COVER TWO TOPICS: THE "MODALITIES" FOR THE REPAYMENT OF THE SOVIET WHEAT LOAN, AND PROVISIONS FOR THE IMPORT AND EXPORT OF "CERTAIN OTHER PRODUCTS." THE CRITICAL ISSUE WITH REGARD TO REPAYMENT OF THE WHEAT LOAN (WHICH THE SOVIETS AGREED LAST FALL NEED NOT BE REPAYED IN WHEAT) IS THE VALUE TO BE PLACED ON THE ORIGINAL "LOAN." THE REPAYMENTS WILL BECOME IN ESSENCE A SUPPLEMENT TO INDIAN EXPORTS UNDER THE LONGTERM AGREEMENT. THE REFERENCE TO "OTHER PRODUCTS" TO BE DISCUSSED BY GRISHIN INDICATES THAT THE TRADE FIGURES FOR A FEW ITEMS HAVE HAD TO BE RESOLVED AT A POLITICAL LEVEL.

4. PATOLICHEV IS NOW REPORTED TO BE SCHEDULED TO ARRIVE IN NEW DELHI ON APRIL 12.

5. THE PROLONGED FINAL STAGES OF THE NEGOTIATIONS, DATING BACK TO THE MINISTERIAL-LEVEL ROUND OF TALKS IN MOSCOW LAST OCTOBER, HAVE PROVIDED THE OPPORTUNITY FOR EXTENSIVE QUESTIONING OF THE FUNDAMENTAL FACTORS IN INDO-SOVIET TRADE TIES ON THE PART OF THE PRESS, INDIAN OFFICIALS DIRECTLY INVOLVED, AND OTHER COMMENTATORS. WHILE IT APPEARS THE LONGTERM AGREEMENT WILL PROJECT A SIGNIFICANT RISE IN TRADE, THERE IS A GENERAL CONSENSUS -- FINDING VOICE IN THE CENSORED PRESS -- THAT (1) THE POTENTIAL FOR SIGNIFICANT EXPANSION IN TRADE IS LIMITED AND (2) THE PRINCIPAL

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CONSTRAINT IS THE INABILITY OF THE SOVIET UNION TO ADJUST TO CHANGES IN THE INDIAN ECONOMY. WITH REGARD TO IMPORTS, THE GROWTH OF DOMESTIC INDUSTRY HAS REDUCED INDIA'S DEPENDENCE ON THE SOVIET UNION FOR HEAVY MACHINERY; REQUIREMENTS IN THIS AREA ARE NOW LIMITED TO ADVANCED SPECIALIZED ITEMS SUCH AS THE REFINERY AND ALUMINA PROJECTS. INDIANS WOULD REPORTEDLY LIKE TO EXPAND IMPORTS OF INDUSTRIAL RAW MATERIALS,

INCLUDING CRUDE OIL. WITH REGARD TO EXPORTS, THE GOI IS ANXIOUS TO EXPAND EXPORTS OF "NON-TRADITIONAL" PRODUCTS, I.E. MANUFACTURED GOODS, IN PARTICULAR THROUGH "PRODUCTION COOPERATION" (SOVIET AID FOR NEW INDUSTRIAL PROJECTS TO BE REPAYED FROM PROJECT OUTPUT).

6. IN THIS CONTEXT IT IS INTERESTING TO NOTE THE DIFFERENCE BETWEEN INDIAN AND SOVIET REPORTING OF THE RECENT MEETING OF THE JOINT COMMISSION ON ECONOMIC, SCIENTIFIC AND TECHNICAL COOPERATION. REFTEL REFLECTS SOVIET FOCUS ON ESTABLISHED ELEMENTS OF INDO-SOVIET RELATIONSHIP: BOKARO AND BHILAI STEEL MILLS, OIL REFINERY, AND HEAVY MACHINE PLANTS. INDIAN PRESS RELEASE (OUT OF MOSCOW AND CLEARLY BASED ON GOI DELEGATION MATERIAL) MAKES NO MENTION OF BOKARO AND BHILAI EXPANSION PLANS AND REFERS IN PASSING TO MACHINE BUILDING. PRINCIPAL OUTCOME OF MEETING, FROM INDIAN VIEWPOINT, WAS FORWARD MOVEMENT ON PRODUCTION COOPERATION BOTH IN INDIA( ALUMINA PLANT, RAW COTTON/ COTTON TEXTILE EXCHANGE, RUBBER AND CASTOR OIL. AND ELECTRONICS--ALL STILL IN THE STUDY STAGE) AND IN THIRD COUNTRIES (SOVIET TURNKEY PROJECTS IN LIBYA, IRAQ AND IRAN WERE IDENTIFIED AS POSSIBILITIES).

7. THE SIGNING AND PUBLICATION OF THE LONGTERM AGREEMENT WILL GIVE US AN OPPORTUNITY FOR MORE SUBSTANTIAL DISCUSSION OF THESE ISSUES WITH GOI OFFICIALS. WE WILL BE REPORTING MORE FULLY ON THE ECONOMIC ISSUES AND OFFICIAL ATTITUDES AT THAT TIME.

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